

Corporate

Current price **53.0p**

Sector **Electronic & Electrical Equipment**

Code **TRT.L**

AIM **AIM**

Share Performance



Source: Thomson Reuters, Allenby Capital

Share Data

Market Cap (£m) **8.6**

Shares in issue (m) **16.3**

52 weeks High **88.5p** Low **42.5p**

Financial year end **June**

Source: Company Data, Allenby Capital

Key Shareholders

CriSeren 9.40%

Seneca 7.67%

P Lobbenberg 5.94%

Legal & General 3.31%

Harwood Capital 3.13%

Gerald Oury 3.03%

Source: Company Data, Allenby Capital

Ian Jermin

0203 328 5664

i.jermin@allenbycapital.com

www.allenbycapital.com

Transense Technologies plc (TRT.L)

Royalty stream strengthens investment proposition

Transense Technologies (Transense) is a developer and manufacturer of sensor technology and equipment. The recent transfer of the assets and licensing of iTrack IP is game changing as far as the future is concerned and leaves Transense with two existing sensor divisions, plus a royalty income stream which we conservatively forecast to grow from a current run rate of c.£0.6m pa to £2.3m in FY2023 and strong cash generation. Q1 2021 results indicate a near breakeven position and having reached an important inflexion point in its development we consider Transense to be an extremely attractive investment opportunity at the current share price.

- **Results reflect the transfer of iTrack IP to ATMS on 25 June 2020** – Results now show iTrack as a discontinued activity following the grant of an exclusive worldwide licence and asset transfer to ATMS Technology (a Bridgestone subsidiary). In the future, associated revenue streams from the iTrack IP will reflect royalty income from ATMS which is currently estimated to be c.£600,000 per annum. All overheads associated with iTrack will be eliminated as will the ongoing losses leaving Transense financially self-sufficient.
- **Revenues from continuing operations in line with FY2019** – The continuing activities consisting of revenues generated from the SAW technology and Translogik probes, were essentially unchanged year on year (yoy) at £0.6m although due to higher costs, the loss before tax increased marginally to £1.3m (FY2019: loss £1.1m). We would repeat that these results exclude iTrack revenues and therefore going forward revenues will be supplemented by royalty income which is essentially 100% gross margin.
- **An important inflexion point for Transense** – It is our belief that the transfer of iTrack to ATMS will prove to be an important inflexion point in the fortunes of Transense going forward. Management time and the technology focus will now switch to the further development and commercialisation of SAW which in the recent past has tended to take second place to the successful development and ultimate sale of iTrack. In addition, the enhanced cash resources and forecast future cash generation makes Transense financially self-sufficient on a normal operational basis.
- **Forecasts based on conservative assumptions** – Our forecasts for the next three financial years are conservatively based yet assume that iTrack royalty income streams will accelerate significantly as the number of vehicles upon which the technology is deployed increases. Revenues from SAW and Translogik are also prudently based, thus offering prospective upside as heightened management focus begins to bear results. Transense has thus been transformed from a cash absorbing, loss making business to one which has traded at around breakeven in Q1 2021 against losses of £0.6m in the comparative period. In summary, we believe that now is a great time to invest.

Year End: June

(£'000)	2019A	2020A	2021E	2022E	2023E
REVENUE	596	603	1,527	2,268	3,236
ADJ. EBITDA	(701)	(681)	33	582	1,392
ADJ. (L)/PBT	(1,124)	(1,265)	(195)	357	1,171
ADJ. EPS (p)	(6.38)	(6.68)	(0.46)	2.56	7.55
NET CASH	2,647	1,193	1,003	1,110	2,100
PER (x)	-	-	-	20.73	7.02

Allenby Capital acts as Nomad and Broker to Transense Technologies plc (TRT.L).

Please refer to the last page of this communication for all required disclosures and risk warnings.

Summary full year results

EXHIBIT 1: SUMMARY FINANCIALS

Years to June	2020	2019	%
	£000	£000	change
Revenue	603	596	1.2%
Gross profit	332	375	-11.5%
<i>margin</i>	55.1%	62.9%	-12.5%
Admin expenses	-1,131	-1,155	-2.1%
Other income	118	79	49.4%
EBITDA	-681	-701	-2.9%
Operating loss	-1,253	-1,126	13.8%
Loss before tax	-1,265	-1,124	12.5%
Loss on discontinued activities	-1,452	-624	132.7%
Net cash	1,193	2,647	-54.9%
Net assets	2,183	4,748	-54.0%
Net current assets	1,217	3,273	-62.8%

Source: Transense

Results show iTrack as a discontinued activity

The above data represent results for the year to 30 June 2020 together with its comparative, all based on continuing activities and excluding results from iTrack, the technology and assets of which were transferred to Bridgestone subsidiary ATMS on 25 June 2020 and are shown as discontinued activities.

Revenues broadly unchanged but costs have risen to support increased marketing spend

Revenues were essentially unchanged but on a segmental basis it can be seen below that Translogik reported a rise in revenues of 7% to £510k but a reduction in gross margin of 12% to 48.8% leading to gross profit of £249k. Overheads, which are relatively modest compared to revenue, rose by £49k to £121k leading to a reduction in profit before tax of 33% at £128k. SAW experienced a reduction in revenues of 23% to £93k yet a rise in overheads of 66% due to higher marketing spend, leading to an increase in the loss before tax of 168% at £582k.

EXHIBIT 2: SEGMENTAL ANALYSIS

Year to June	Translogik			SAW		
	2019	2020	%	2019	2020	%
	£000	£000	change	£000	£000	change
Revenue	476	510	7.1%	120	93	-22.5%
Gross profit	263	249	-5.3%	113	83	-26.5%
<i>margin</i>	55.3%	48.8%	-11.6%	94.2%	89.2%	-5.2%

Source: Transense

Grant income likely to reduce and end in current year

SAW reported other income of £118k which relates to grant income earned from participation in a SAW development project with the University of Southampton. This project will complete in the current financial year and is forecast to contribute around £50k.

Year-end cash of £1.2m

There was an operating cash outflow of £1.9m which included losses from discontinued activities and a working capital outflow of £282k compared to an inflow of £275k in the preceding year. Following the proceeds from the disposal of iTrack, the net change in cash balances during the year was a negative £1.5m against a comparative inflow of £1m in the prior year leading to a net cash balance of £1.2m (FY2019: £2.6m).

Proposed capital restructuring to facilitate dividends/buy backs

As an indication of its confidence in the future progress of Transense, the Board will, at the AGM to be held in December, be proposing to change the capital structure of the Company to facilitate future dividend distributions and share buy backs.

Divisional commentary

iTrack

Bridgestone is a dominant global manufacturer of Off the Road tyres (OTR) and had developed its own tyre monitoring system called “B-TAG” which enabled users to measure tyre pressure and temperature remotely in real time. However, it noted that the iTrack tyre system technology developed by Transense was a superior solution and in February 2019 placed an order for 50 units for installation in mines in North America.

This was quickly followed by the establishment of a joint collaboration agreement with Transense whereby it agreed to offer the iTrack system exclusively as a mining tyre monitoring system for tyres 57 inches and above for its OTR customers.

On 24 June 2020, Transense granted an exclusive worldwide licence to ATMS Technologies (ATMS), a wholly owned subsidiary of Bridgestone Corporation Japan (Bridgestone) covering all current and future iTrack technology for a period of ten years. Bridgestone is expected to expand this offering to additional OTR customers as it fully integrates the solution into its portfolio.

This was deemed to be the best solution for Transense to fully capitalise on the market opportunity for the technology and as a result all revenue and costs have been transferred from Transense to ATMS at an NAV of \$1.31m being the value and assets of the transferred business of \$3.26m, less the repayment of working capital loans of \$1.95m.

In this way Transense will see the full benefit of its research and development through a royalty payment stream which is expected to increase significantly from the current run rate of c.£600,000 per annum over the licence period as it offers the system to new customers and upgrades clients already using the B-TAG system. For example we prudently estimate that royalty income over the next three years will amount to nearly £4.5m and will continue to accelerate over the remaining period of the licence to June 2030.

iTrack royalty income prudently expected to amount to over £4.5m during the course of the next 3 years

SAW

Results from SAW technology, were lower at £93k (FY2019: £120k) with gross profit of £113k against a comparative of £83k. While the licence agreement signed in July 2016 with General Electric (GE) was a significant milestone for Transense, progress elsewhere has been slower than might have been expected and this is partly due to the focus of management on the development of iTrack and its eventual transfer to Bridgestone.

Now that the transfer has been concluded this business can move forward and the renewed impetus has been reflected in the recent appointment of Nick Hopkins to lead the SAW team as MD. Since his appointment, the Board has approved plans to further develop the business with the short-term aim being to generate additional commercial and grant support income to ensure that SAW makes a positive contribution to the Company's financial results.

To further this strategy the business has recently established a Commercial Advisory Panel (CAP) using senior people in the industry to help direct and move the division forward at a faster pace than previously.

The initial GE licence fee of \$0.75m was received in three stages across 2016-17 and under the terms of the licence agreement GE will pay a perpetual sales royalty to Transense in

BRIDGESTONE MINING TRUCK TYRE



Source: Bridgestone

A SAW SENSOR



Source: Transense

GE T901 engine for US Army incorporates SAW sensors...

respect of each unit using the technology. To date, Transense has received only a modest level of royalty income, however, the very significant royalty potential from the GE licence agreement is still to come.

In 2019, under the Improved Turbine Engine Program (ITEP), GE's T901 engine was selected by the US Army to be retrofitted in its Boeing AH-64 Apaches and Sikorsky UH-60 Black Hawks helicopters. The T901 engine incorporates Transense's SAW sensor. Over a period of years the US Army intends to replace more than 6,200 engines currently installed in their fleet of these two aircraft.

...and has numerous other market opportunities

The wider market for the T901 includes replacement engines for these aircraft in military forces outside of the USA as well as other military and commercial medium sized vertical take-off aircraft globally. Therefore the opportunity with GE alone is exceptional for Transense and is expected to increase revenues from 2024 onwards and generate additional interest from other divisions of GE.

Flight tests and production decision in 2024

During 2020, the ITEP successfully completed each of three Critical Design Review events and is on schedule to execute the First Engine To Test assembly of all subcomponents in Q3 2021 before flight tests and a production decision in 2024.

Translogik

TRANSLOGIK PROBE



Source: Transense

Revenues from Translogik probes rose by 7% to £510k (FY 2019: £476k) although gross profit fell by 5% from £263k to £249k leading to a reduction in margin of 12% to 48.4%. This was primarily the result of increased marketing and product development expenditure. While the business still made a positive contribution due to relatively low overheads, profits Translogik's profits declined by 33% to £128k.

The product range comprises inspection gauges for car and commercial truck and bus tyres, allowing rapid reading of tread depth, tyre pressure, radio frequency identification and tyre pressure monitoring system data.

This data can be transferred via Bluetooth to a smart device and stored and displayed on the customers' tyre management software system. Translogik probes are specified for use in the Goodyear Tire "Optix" system, Bridgestone "Toolbox" and "Total Tyre Care" systems and the Continental "Fleetfox" system, suggesting that they represent an industry standard.

During the year, the division launched the new TLGX Series, a modular range of four new gauges offering a broad variety of features at competitive prices having been developed primarily for system integrators and fleet management software providers. Early indications of interest are encouraging and a renewed marketing programme is expected to result in higher sales and profits in 2021 and onwards.

Forecasts by division

We believe the following forecast to be based on very prudent assumptions and therefore our conviction remains high that these projections are not only achievable but are capable of being exceeded.

EXHIBIT 3: SEGMENTAL FORECASTS

	Translogik			SAW			iTrack			Transense		
	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Revenue	555	611	672	207	282	310	765	1,375	2,254	1,527	2,268	3,236
Gross profit	333	366	403	181	253	279	765	1,375	2,254	1,289	1,994	2,936
<i>margin</i>	60.0%	59.9%	60.0%	87.4%	89.7%	90.0%	100.0%	100.0%	100.0%	84.4%	87.9%	90.7%

Source: Allenby

Summary

Technology validated by several global corporations

The efficacy of Transense's various technologies has been validated over the past several years by numerous globally respected organisations such as Bridgestone (iTrack and Translogik), Goodyear (Translogik), General Electric (SAWS), McLaren (SAWS) and previously through the sale of the IntelliSAW division to US-based Emerson.

We therefore see no reason to remain anything but very confident that Transense will continue to add value for shareholders even though the current share price undervalues the Company significantly.

New market opportunities for SAW and Translogik...

The coming years will see a commercial revitalisation of the SAW platform which is, with the help of the recently established CAP, expected to open up new opportunities and markets for the technology while Translogik, albeit a more modest opportunity, will continue to increase its positive contribution to Transense results.

...significantly supported by strong and accelerating royalty income from iTrack

On top of this of course is the significant future royalty income stream from the Bridgestone licence which over the next ten years will provide an increasing revenue annuity and strong cash generation for the Company which we believe will be applied in funding further R&D and hopefully the payment of dividends.

Proposed change to capital structure indicates confidence in the future

As noted earlier we are encouraged by the fact that at the AGM the Board will propose a change in the capital structure of Transense to facilitate future dividend distributions and/or share buy backs. This indicates very clearly management's confidence in the future performance of Transense.

A great time to invest

We therefore repeat our assertion made on page one of this report that now is a great time to invest in Transense.

Income statement and forecasts

EXHIBIT 4: INCOME STATEMENT AND FORECASTS

Y/E June	£000 FY 2019A	£000 FY 2020A	£000 FY 2021E	£000 FY 2022E	£000 FY 2023E
UNDERLYING					
Revenue	596	603	1,527	2,268	3,236
Cost of sales	-221	-271	-248	-274	-300
Gross profit	375	332	1,279	1,994	2,936
<i>margin</i>	62.9%	55.1%	83.8%	87.9%	90.7%
Administrative expenses	-1,115	-1,131	-1,295	-1,412	-1,544
<i>as a % of revenue</i>	193.8%	187.6.1%	84.8%	62.3%	47.7%
Other income	79	118	49	0	0
Underlying EBITDA	-701	-681	33	582	1,392
<i>EBITDA margin</i>	-117.6%	-112.9%	2.2%	25.7%	43.0%
Depreciation	-41	-90	-28	-25	-21
Amortisation	-384	-482	-200	-200	-200
Underlying operating profit/(loss)	-1,126	-1,253	-195	357	1,171
<i>Operating profit margin</i>	-188.9%	-207.8%	-12.8%	15.7%	36.2%
Finance income/(expense)	2	-12	0	0	0
Underlying profit/(loss) before tax	-1,124	-1,265	-195	357	1,171
Tax	283	175	120	60	60
Underlying profit/(loss) after tax	-841	-1,090	-75	417	1,231
STATUTORY					
Underlying operating profit/(loss)	-1,126	-1,253	-195	357	1,171
Exceptional items	0	0	0	0	0
Statutory operating loss	-1,126	-1,253	-195	357	1,171
Finance income/(expense)	2	-12	0	0	0
Statutory (loss)/profit before tax	-1,124	-1,265	-195	357	1,171
Tax	283	175	120	60	60
Statutory (loss)/profit after tax	-841	-1,090	-75	417	1,231
Weighted average shares (m)	13.185	16.307	16.307	16.307	16.307
Year-end shares (m)	16.307	16.307	16.307	16.307	16.307
EPS Basic (p)	(6.38)	(6.68)	(0.46)	2.56	7.55
EPS FD (p)	(6.38)	(6.68)	(0.46)	2.56	7.55

Source: Transense; Allenby

Balance sheet and forecasts

EXHIBIT 5: BALANCE SHEET AND FORECASTS

Y/E June	£000 FY 2019A	£000 FY 2020A	£000 FY 2021E	£000 FY 2022E	£000 FY 2023E
Non-current assets					
PP&E	529	290	259	228	197
Intangible assets	946	844	792	740	688
Trade lease receivables	0	0	0	0	0
Total non-current assets	1,475	1,134	1,051	968	885
Current assets					
Inventories	566	63	63	63	63
Tax	0	175	0	0	0
Receivables	789	1,677	288	632	900
Cash	2,647	1,193	1,003	1,110	2,100
Total current assets	4,002	3,108	1,354	1,805	3,063
Total assets	5,477	4,242	2,405	2,773	3,948
Current liabilities					
Payables	-604	-854	-72	-87	-97
Borrowings	0	-976	0	0	0
Lease liabilities	0	-61	0	0	0
Tax	-55	0	-30	-35	-40
Provisions	-70	0	0	0	0
Total current liabilities	-729	-1,891	-102	-122	-137
Non-current liabilities					
Lease liabilities	0	-168	-195	-132	-65
Borrowings	0	0	0	0	0
Total non-current liabilities	0	-168	-195	-132	-65
Total liabilities	-729	-2,059	-297	-254	-202
Net current assets	3,273	1,217	1,252	1,683	2,926
Net assets	4,748	2,183	2,108	2,519	3,746
Equity					
Share capital	5,451	5,451	1,631	1,631	1,631
Share premium	2,591	2,591	0	0	0
Reserves	-3,294	-5,859	477	888	2,115
Total capital	4,748	2,183	2,108	2,519	3,746
BALANCE SHEET RATIOS					
Y/E June	£000 FY 2019A	£000 FY 2020A	£000 FY 2021E	£000 FY 2022E	£000 FY 2023E
Long-term financial debts	-	-	-	-	-
Short term financial debts	-	(976)	-	-	-
Gross (debt)	-	(976)	-	-	-
Cash and cash equivalents	2,647	1,193	1,003	1,110	2,100
Net (debt) / cash	2,647	217	1,003	1,110	2,100
Acid test (Current Assets less inventory / Current Liabilities)	4.71	1.61	12.66	14.28	21.90

Source: Transense; Allenby

Cash flow and forecasts

EXHIBIT 6: CASH FLOW AND FORECASTS

Y/E June	£000 FY 2019A	£000 FY 2020A	£000 FY 2021E	£000 FY 2022E	£000 FY 2023E
Loss from operations	-1,465	-2,542	-195	357	1,171
Financial income	-2	9	0	0	0
Tax	-266	-171	0	0	0
Loss on disposal of trade & assets	0	72	0	0	0
Depreciation	369	538	28	25	21
Loss on disposal of fixed assets	0	18	0	0	0
Amortisation	396	504	200	200	200
Share based payments	0	0	0	0	0
Unrealised currency gain/(loss)	0	0	0	0	0
Cost of capital restructure	0	0	0	0	0
Operating cash flow before WC	-968	-1,572	33	582	1,392
<i>(Increase)/decrease in receivables</i>	<i>-91</i>	<i>-177</i>	<i>-156</i>	<i>-344</i>	<i>-268</i>
<i>Decrease/(increase) in payables</i>	<i>247</i>	<i>477</i>	<i>18</i>	<i>15</i>	<i>11</i>
<i>Decrease/(increase) in inventories</i>	<i>119</i>	<i>-582</i>	<i>0</i>	<i>0</i>	<i>0</i>
<i>Decrease/(increase) in lease receivables</i>	<i>0</i>	<i>0</i>	<i>-60</i>	<i>-64</i>	<i>-67</i>
Net change in WC	275	-282	-198	-393	-324
Cash used in operations	-693	-1,854	-165	189	1,068
Tax	266	-4	120	60	60
Net cash used in operations	-427	-1,858	-58	239	1,122
Interest received	2	8	0	0	0
Purchase of PP&E	-424	-764	-36	-36	-36
Purchase of intangible assets	-433	-513	-96	-96	-96
Proceeds from disposal of trade & assets	0	772	0	0	0
Net cash used in investing activities	-855	-497	-132	-132	-132
Proceeds from issue of shares	2,335	0	0	0	0
Loans advanced	0	1,585	0	0	0
Loans repaid	0	-609	0	0	0
Interest paid	0	-17	0	0	0
Payment of lease liabilities	0	-58	0	0	0
Net cash from financing activities	2,335	901	0	0	0
Net change in cash	1,053	-1,454	-190	107	990
Cash at start of year	1,592	2,647	1,193	1,003	1,110
FX	2	0	0	0	0
Cash at end of year	2,647	1,193	1,003	1,110	2,100

Source: Transense; Allenby

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Allenby Capital, 5 St Helen’s Place London EC3A 6AB, +44 (0)20 3328 5656, www.allenbycapital.com